

Remarks of Robert L. Crandall
At the ATO Leadership Summit
August 15, 2006

Thanks Russ, and good afternoon everyone.

Challenge is always exciting, and your objectives for this meeting are very challenging. Thus, you should have an exciting couple of days!!!

As you know, I spent many years in the airline industry, which seems continually challenged on every front, and in which the ability to avoid bankruptcy has become a proxy for success — which is faint praise indeed. Last week, as the industry wrestled with the consequences of its latest confrontation with terrorism, the nation's newspapers and television screens were full of speculation about the industry's financial fate.

Unfortunately, most of the speculation focused on whether stock prices would go up or down, which makes little difference in the long term to either citizens or travelers. What does matter — a lot — is whether the carriers, and the integrated transportation system they operate, can continue to move people and goods efficiently, quickly, reliably and safely from one part of the country to another.

While Wall Street's focus on share prices may be understandable, the rest of us need to focus on the enormous importance of aviation as a component of the nations overall economy. Let me give you a few numbers:

Travel drives jobs!! Travel related payrolls total more than \$163 billion dollars — one of every eight U.S. non farm jobs are directly or indirectly driven by travel and tourism. And without aviation, there would be far less travel and tourism!!

Travel is one of America's largest retail sales industries. Travel expenditures exceed \$1.3 trillion and provide about 100 billion — that's with a 'B' — in tax revenues for federal, state and local governments.

Travel is a huge service export. International visitors spend nearly \$100 billion in the U.S. every year; about \$5.0 billion more than U.S. citizens spend abroad. Thus, travel generates a U.S. surplus, which helps offset our enormous and troubling trade deficit.

Those numbers make clear that a healthy, vibrant, growing airline industry is essential to the U.S. economy. Let me say it again — a healthy aviation system is essential to the U.S. economy. Someone has to make it happen — and among the some ones are those of you who manage the ATO.

Of course, you aren't the only ones responsible. The airline industry must get its own house in order, and as you all know, the industry has been working hard to do just that. Most of the major carriers have accepted the changed reality, have swallowed their pride and declared bankruptcy, and are doing their best to improve their abysmal financial results. But it is no easy task. To accomplish their goals, they must transform the attitudes and behaviors of hundreds of thousands of people

Can you imagine the impact of bankruptcy on the proud personnel of companies like United, Northwest and Delta? Many of these people entered the airline industry in the years before deregulation and have sustained themselves over the years with the belief that they are the best of the best — the best people at the best company in the best airline system in the world. And then they wake up one morning and discover that it isn't true — they aren't the best of the best, and despite their best efforts — at least as they see it — their company has failed financially. It's bankrupt!!

Despite their disillusion, people at the legacy carriers have pitched in — although sometimes not happily — and have participated in a transformation that has made the major carriers vastly more efficient than they were only five years ago. Today, the average U.S. airline employee produces 22 percent more departures, 21 percent more seats and 34 percent more available seat miles than he or she did in the year 2000.

The trade off has been a dramatic decline in the personal attention and on board service that was a source of pride to many veteran airline employees. Their pride in themselves, their companies and their industry has also been impacted by other elements of the industry transformation.

In addition to insisting on increased personnel productivity, airline managements have focused on equipment productivity, and in the process have withdrawn so much capacity, and driven load factors so high, that the system is no longer as usable as it has been in the past. As a consequence, schedule disruptions — which are inevitable in the airline industry — have a far more profound impact on passengers than was true at one time. And airline employees, anxious to serve their customers, are often faced with telling passengers that there is nothing they can do to help!

Travelers, like airline employees, have adjusted to the systems new parameters. As the market's focus on ticket prices has driven out personal service and as security requirements have made airport transit more laborious, travelers have learned to arrive early for their flights, to avoid socks with holes and to eat before boarding. This summer's high load factors are quite a striking testimony to the resilience and determination of the traveling population. Last week, the challenges got more extreme, but I have little doubt that as procedures are refined, new rules better understood and new technology applied, travelers will adopt once again.

There are, however, certain minimum requirements that travelers will not waive. Safety, of course, tops the list for everyone. But for those who travel often, timeliness is close behind. Unless business travelers can count on getting to their destinations on time, they will simply stay

home or go elsewhere with their ideas — and if they do, our economy, our standard of living and our global competitiveness will all be diminished.

To assure timely flight arrivals, the United States needs to make large new investments in its aviation infrastructure. As you all know, the number of travelers is growing, and should reach one billion by 2015, which is only nine years away. To accommodate those passengers, the airlines will need to add more flights, often using smaller aircraft to more efficiently match capacity with demand. Additionally, more goods are moving by air, and a new generation of small jet aircraft will encourage more private aviation and stimulate the growth of air taxi services. To accommodate all this, we need more of everything — more terminals, more runways, and most importantly, more capacity aloft.

As you all know, increased capacity aloft depends on the development of an entirely new air traffic management system, the design of which is well advanced. Assuming adequate funding, the new system will be developed and phased in during the next two decades. As the new system evolves, the role of the FAA will also evolve. As that evolution proceeds, your role — to guide and shape the maturation of an entirely restructured ATO — will be immensely important. Indeed, I do not think I overstate the case when I tell you that without effective management of the ATO, the United States is unlikely to either maintain international aviation leadership or realize the improvements needed to sustain a satisfactory domestic aviation network. The consequences of failing could be severe!!

Hopefully, we will act before the system deteriorates further. But as you all know, things are already going badly, and unless we get on with the major changes needed, the apocalyptic visions articulated by some observers may well come to pass.

What do we need to do to avoid that outcome?

First and foremost, the aviation community — which includes the FAA — needs to do a better job of persuading congress that improving the aviation infrastructure is essential to the nation's economic well being. Second, the FAA needs to do a better job of managing itself than it has in the past, and by doing so, persuade the Congress that it can be trusted with the substantial resources it needs.

I have always thought of the job of management as being essentially a two-part undertaking. The first part requires envisioning what the future holds so that the organization can be pointed in the right direction, and the second involves devising and executing a business plan consistent with management's vision of the future.

In your case, the vision part of the task has been accomplished. While there is certainly room for disagreement about the precise rate of future growth, I do not think there is any disagreement, anywhere, about the fact that our present aviation infrastructure is badly in need of expansion and improvement. And while the details of the new ATC system have not all been firmed up, it is clear that today's air to ground network will be replaced as new technologies make closer, better control of air traffic possible.

Thus, your task is focused on part two of the management challenge — which is to devise and execute a business plan consistent with the established vision of the future. The ATO — created just 2 1/2 years ago — represents the business plan. Russ chew's job — and yours — is to persuade the people of the ATO that they — like the airline employees I mentioned earlier — must accept the reality of change. Only by doing so can you — and they — accomplish the cultural transformation necessary to achieve realization of the ATO's promise.

I am sure the FAA's people don't like change any more than airline people, which means there will be lots of opposition to things like consolidating services from nine regions to three service

areas, like pushing budgeting and spending authority down through the organization, and like measuring every organization against agreed on standards of cost and service quality.

But those things have to happen. You all know that the federal government is running big annual deficits, and that there is keen competition for every budget dollar. In recent years, successive administrations have sought to reduce general fund contributions to the FAA and the agencies customers — the airlines and other system users — have fought among themselves about how to finance the aviation trust fund. In 2007, there will be another round of debate, and the FAA's management of its resources will again be under careful review. Your customers will call for lower costs and the ATO's performance will be compared to the efficiency of foreign ATC providers. Some will advocate — as they have in the past — that ATC management should be privatized, and there will be more pressure to emulate the outsourcing of the flight service stations earlier this year.

My guess is that most of you are proud to serve the FAA, believe it is the world's best aviation management organization and want to do what is needed to sustain your agencies leadership. To accomplish that goal, you must embrace change, and lead your colleagues toward the higher levels of performance that an ever more demanding environment demands. There is no point in imagining that change can be avoided — change is unavoidable. But as managers, you can contribute to making change a positive rather than a negative experience — and in the process, enhance the pride you and your associates feel in being associated with an admired and emulated organization

The key to success is doing the things you need to do to lead towards successful change. There is no single rule as to how to achieve that elusive goal, but I can share with you a set of ideas we laid out at American when we set out — in the wake of deregulation — to change the mind set of our nearly 100,000 employees. The rules, which we called the "nine points of American leadership," described the ways in which we wanted all our manager/leaders to behave.

Let me run through them with you.

The first rule is to be willing to listen. Jack Welch of General Electric likes to recount the fact that on the day he got his job as chairman, Walter Wriston, then chairman of Citibank, told him that he would always be the last to know the critical things that needed to be done at GE. Welch says that Wriston was right.

To overcome that problem, leaders must create a high level of mutual trust by demonstrating that they are genuinely concerned about the feelings and emotions of their people, and that their response to information about a problem is to solve it — not to kill the messenger. No one can fix a problem until they know about it, and until all the people of an organization feel free to talk about their problems, no organization will be as good as it could be.

The second rule is to build people up whenever possible, to make a real effort to reward those whose creativity and innovation make the organization better.

Never forget this reality: management's job is to fix problems! In too many organizations, and I suspect this is particularly so in government, management does too little to fix the problems it knows about, which quickly erodes the trust and confidence of the organization's people.

The third rule is to behave in a way that will earn respect. Always remember that you are seen by others in an inclusive way; that is, it simply isn't possible to have the respect of others if you behave — in any part of your life — in a way that others regard as improper or unethical. People will measure truthfulness, responsiveness and integrity by what a leader does, not by what he or she says — and respect is an essential element of trust. You can be sure you'll never have the clear flow of communication you want and need if your people do not respect your personal standards.

The fourth rule is to set high standards of performance — keeping in mind that the key word is "performance," not effort.

You've been to lots of meetings — and so have I — at which people lay out, in great detail, the many reasons they have failed to achieve a particular goal and will emphasize how hard they have worked. In the airline business, trying to get planes out on time does not impress customers. Nor do they care much about fancy automated baggage systems, sophisticated reservation telephone links, or splendidly elegant systems for scheduling cabin maintenance. Airline customers want on-time service, clean airplanes, pleasant agents and flight attendants, and prompt baggage delivery. They want results and don't care much about effort.

In every business, it's performance that wins customers. Management's job is to set high standards, measure performance against those standards, reward those who achieve them, and replace those who don't!

The fifth rule of leadership is that the spirit of a rule is more important than its letter. The energy and enthusiasm of people is the core asset of every organization. Every organization needs to move more quickly than it does and can do so only by making full use of the intelligence and self-confidence of productive, innovative people. The way to harness that power is to be certain that the rules you set up — and rules are necessary in every organization — don't compel people to do wacky things. Here's an example. In the airline business, we measure whether the airplane departs on time by means of sensors linked to the aircraft brakes. For many, many years, we and other airlines have struggled to explain that releasing the brakes before the airplane is actually ready to go, thus showing an on-time departure when there was actually a delay, does nothing to help identify the changes necessary to make it possible for that and other planes to actually leave on time. We have always had great difficulty shaping the rules — or measures — by which we judge a station's performance so as to simultaneously keep people focused on the absolute importance of leaving promptly while discouraging them from "kicking the brakes" in order to look good on the scorecard. In a sense, that example relates to the sixth

rule as well — which is to give everybody in the organization a clear understanding of the mission. Everyone has to understand the plan and the rationale behind it. Unfortunately, communicating with tens or hundreds of thousands of people is no simple task!

The seventh rule is to use common sense in solving every problem. Every now and then we come across a genuinely complicated problem, which takes a while to work out. On the other hand, most problems are pretty simple, but tend to be made more complicated by convoluted administrative procedures. It's also important to keep in mind rule five — that the spirit of a rule is more important than its letter — when considering how to apply the appropriate mix of rules and common sense to any given business problem.

The eighth point of leadership is that those who lead must have a burning desire to win and a sense of competitive anger about losing. There's an old saying that goes "lead, follow, or get out of the way." and another — which I particularly like — which holds that "if you're not the lead dog, the view never changes." to be a successful leader, you must want to win!

For you, winning may have a different connotation than it might have in a business environment. In your case, winning means making the ATO transformation successful and getting everyone in your organization to understand how important that transformation is.

The last fundamental of leadership is to find a way to create high morale.

This is a tough one, because morale is basically emotional; to build high morale you've got to make people feel good about themselves. That is obviously going to be especially difficult as you implement the new labor contract — but it is certainly possible. Your people know that the new contract makes sense and the union's proposals were unaffordable, whether they want to admit it or not. Thus, implementing the new contract means more than just insisting on compliance; it also means explaining, over and over again, why the deal makes lots more sense for everyone than another round of confrontation. It also means treating people with respect and

has a lot to do with your ability to build your people's self esteem. The morale of your organization is rooted in the standards you set and in your ability to persuade them that your plan will lead to the success that everyone wants — that they are on a winning team striving to achieve a worthwhile goal.

I'll make no claim that those are the best nine rules there ever were — but I think they're a pretty good set of guidelines to check against as you work to run your organization to the higher standards that today's world requires.

To wrap up, let's summarize. There are two parts of the leader/manager's job:

1. The first is to figure out what the business is, what it ought to be and where it's going. The work product should be a clear-cut mission statement and a detailed business plan, which you can communicate effectively throughout your organization.
2. The second is to run the business, day in and day out, in a way, which matches up with both the mission statement and the business plan. To do so, you will need to consistently apply whatever rules of leadership you think are appropriate and important.

In the end, you'll have to face up to Harry Truman's well-known thought that "the buck stops here" — in this case, on your desk. Running anything — big or small — is an individual responsibility. There are usually people you can turn to for help — sometimes bosses, sometimes colleagues, sometimes members of your team — but in the end, making your organization work right is up to you. Sometimes people fail because they never step up to the responsibility to choose and implement a course of action until the game's over.

Some years back I heard a story, which emphasized individual responsibility in a very graphic way. It had to do with a mountain climber who had tackled a nearly impossible, almost vertical

cliff and who, just as he reached the top, slipped and started to hurtle towards the valley far below. About 15 feet from the top he managed to grab a bush that was growing out of a small crack. In despair and desperation he looked up and called out, hoping against hope that someone would hear him: "Is anybody up there?" To his surprise, a very deep voice came back and said, "Yes, I'm here." The climber — who was very relieved to hear the voice — called back, "Who are you?" and the voice said, "This is God." Well, the climber, as you can imagine, was a little surprised but very relieved and instantly called back, "Then save me! Save me!" and the voice responded, "Do you believe?" The climber answered enthusiastically, "Yes, yes, I believe! I believe!" to which the voice responded, "Then let go of the bush." The climber thought for a moment, then looked up and called, "Is there anyone else up there?"

The facts are, ladies and gentlemen, that if you're running an organization, there isn't anyone else — up there or elsewhere. It's up to you to do the conceptual thinking and to drive the organization's day-to-day performance. It's up to you to deliver performance, which is the only way to assure success.

As a long time member of the aviation community, and as a citizen who understands how important our aviation system is, and how important your contribution is, I wish you the best of luck.

